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EXPANDING TRADE AND INVESTMENT WITH SELECTED ASIA-PACIFIC COUNTRIES: REPORT ON A FACT- FINDING MISSION TO SINGAPORE, MALAYSIA AND THAILAND

Report of the Standing Committee on International Trade

The Honourable Mark Eyking, Chair

**JUNE 2018
42nd PARLIAMENT, 1st SESSION**

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NOTICE TO READER

Reports from committee presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON INTERNATIONAL TRADE

has the honour to present its

ELEVENTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the trade relationship between Canada and countries of the Association of South East Asian Nations and has agreed to report the following:



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EXPANDING TRADE AND INVESTMENT WITH SELECTED ASIA-PACIFIC COUNTRIES: REPORT ON A FACT-FINDING MISSION TO SINGAPORE, MALAYSIA AND THAILAND

Introduction

In winter 2018, seven members of the House of Commons Standing Committee on International Trade (the Committee) travelled to selected countries that are part of the Association of Southeast Asian Nations (ASEAN)¹ to meet with legislators, government officials, businesses, Crown corporations, think tanks and intergovernmental organizations. Collectively, the ASEAN countries have the world's sixth-largest economy² and a population of 640.5 million people, of which 59.9% are less than 35 years old.³

The Committee's meetings focused on trade and investment relations between Canada and the ASEAN countries, possible negotiations for a Canada–ASEAN free trade agreement (FTA),⁴ and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that was signed in March 2018.⁵ In particular, the Committee had meetings in three ASEAN countries: Singapore on 26 and 27 February 2018; Malaysia⁶ on 28 February and 1 March 2018; and Thailand⁷ on 2 March 2018. Singapore and Malaysia are also among the 11 CPTPP countries.

This report summarizes the information that the Committee obtained during meetings in the three countries about Canada's trade and investment relations with them specifically

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- 1 The Association of Southeast Asian Nations [ASEAN] comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
 - 2 Global Affairs Canada, *Exploratory discussions for a possible Canada–ASEAN free trade agreement*, 18 October 2017.
 - 3 The Committee's calculation of population-related data is based on statistics from: the World Bank, *Population estimates and projections* (database), accessed on 7 June 2018.
 - 4 On 8 September 2017, Canada and the ASEAN countries announced that they would begin exploratory discussions for a Canada–ASEAN free trade agreement.
 - 5 On 8 March 2018, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.
 - 6 The meetings were held in Kuala Lumpur.
 - 7 The meetings were held in Bangkok.



and with the ASEAN countries generally, and about FTAs. Because the Committee's meetings were designed to be private and "off the record," the report describes the general nature of the issues that were raised.

Singapore

A. Trade Relations

According to those with whom the Committee met in Singapore, the country has an open economy, imports most of its food, and needs rules that ensure its ability to trade internationally. It is also the world's busiest transshipment hub and a significant location for oil trading and refining. In 2016, the country's economy was valued at 447.3 billion Singapore dollars; it grew 3.6% in 2017, and is projected to grow between 1.5% and 3.5% in 2018.

Regarding federal support for Canadian firms that export to – or invest in – Singapore, the Committee heard that Global Affairs Canada's Trade Commissioner Service has sufficient representation in Southeast Asia and that Export Development Canada has established a major office in Singapore, the first such foreign office that is not co-located with Global Affairs Canada. Canada's exports to Singapore primarily comprise financial and insurance services.

The Committee was told that demand for Canadian goods and services is growing consistently in Southeast Asia, that there are significant opportunities to increase the value of the country's trade with the region, and that Singapore should develop connections with Canada in such sectors as technology, finance and innovation. For example, Singapore's efforts to digitize its economy could lead to greater innovation- and digital technology-related trade, and more bilateral partnerships between Singaporean and Canadian firms.

Three specific challenges that affect Canada's trade relations with the ASEAN countries were identified. First, because Canadians have less knowledge about these countries than do Australians, the Government of Canada was urged to educate the country's firms about the ASEAN countries and opportunities for doing business there, and both it and the provincial governments were encouraged to provide funding in order to increase the number of Canadian students studying in those countries. A second challenge is that Canadian firms that wish to do business in those countries have difficulty finding suitable partners there, and the relationships that facilitate these firms' commercial success in the ASEAN region take a long time to build. Finally, Canadian firms operating

in Southeast Asia have been lagging behind their competitors – including those in the European Union – because Canada does not have an FTA with the region's countries.

The Committee learned that regulations in Asia are inconsistent, especially those relating to data flows and cybersecurity. As well, because lobbying is not a common practice in Asia, the resulting lack of engagement between government officials and the private sector in Asia leads to what was described as unresponsive trade policy.

B. Investment Relations

The Committee heard about a number of factors that make Singapore an appealing country in which to establish and maintain business operations. For instance, in 2017, Singapore was second among 190 countries in the World Bank's ease of doing business ranking. As well, the country has a highly educated workforce and low tax rates, and does not have significant labour disputes. Moreover, Singapore's small firms have access to venture capital, incubators and accelerators. Pratt & Whitney, Celestica, Bombardier and Future Electronics were identified as examples of Canadian firms that have invested in Singapore.

C. Free Trade Agreements

During one of the Committee's meetings, the CPTPP was described as transformational and as a way in which Canada could diversify its trade relations; it was also characterized as having high standards, ambitious market access commitments and ground-breaking e-commerce provisions. The agreement is expected to help small firms invest abroad, compete with larger firms, obtain duty-free access to foreign markets, and supply services internationally without having to establish or maintain a foreign presence.

The Committee was told that some countries that are not part of the CPTPP – including South Korea and Thailand – are likely to want to accede to the agreement, which could eventually include as many as five or six of the ASEAN countries. However, accession would be difficult for some ASEAN countries because of challenges relating to their level of development.

As well, the Committee heard that some Asian countries – such as Vietnam – are not currently prepared to ratify or implement the CPTPP. That said, Singapore's ratification process was described as fast and easy, although legislative or regulatory changes may be required.



The Committee was told both that Canada should conclude an FTA with the ASEAN countries and that such an FTA is not desired by everyone. Regarding the former, Canada was encouraged to conclude an FTA with the ASEAN countries as a means of diversifying its trade relations; such an FTA should be based on the CPTPP. However, the ASEAN countries vary in their levels of development, and not all of these countries want a Canada–ASEAN FTA.

Malaysia

A. Trade Relations

Malaysia was characterized as a trading nation that has a rapidly growing economy. It hopes to be a high-income country by 2020, although economic challenges relating to fiscal policy, education, labour shortages, and small and medium-sized firms were identified. In particular, reducing the country's oil price–induced budgetary deficit has been challenging.

The Committee heard that educational outcomes in Malaysia are thought to be poor. Because Canada's education system is perceived as being of high quality, Malaysia is interested in increasing the number of Malaysian students that study here.

While Malaysia has more migrant workers than most countries in the East Asia-Pacific region, labour shortages exist in some sectors; ensuring access to workers could support the productivity of the country's economy.

Concerning the need to increase the productivity and efficiency of Malaysia's small and medium-sized firms, including through mergers, the Committee heard that the country provides incentives and assistance programs to help these firms adjust to the enhanced competition that can result from trade liberalization. For example, the Government of Malaysia reimburses certain training expenses and a special bank offers low interest rates to these firms. However, the Government of Malaysia should play a larger role in encouraging the country's firms to engage internationally, including through trade fairs and subsidies for market research.

The Committee was told that, since 1967, Malaysia's manufacturing sector has increased its share of the country's merchandise exports. Malaysia's agricultural and mining sectors were the source of 85.5% of the value of its merchandise exports in that year, while – in 2017 – 82.1% of the value of the country's merchandise exports were manufactured goods, such as chemicals, petroleum and electrical and electronic goods,

and 17.0% were commodities and agricultural goods, including palm oil, liquefied natural gas and crude oil.

Malaysia is the world's largest and second-largest exporter of rubber gloves and palm oil, respectively. To satisfy a high demand for palm oil, forests in parts of Southeast Asia have been cleared and the land has been used for palm oil plantations.

B. Investment Relations

The Committee was informed that China is Malaysia's largest investor, especially in the transportation infrastructure sector, and that German and Japanese electronics firms are being encouraged to invest in Malaysia. As well, Malaysian firms consider Canada to be a potential place in which to establish operations and, thereby, access the U.S. market. Canada's reputation as a friendly country is a factor that contributes to Canadian firms' success when operating in Malaysia.

Regarding Malaysia's financial sector, Canadian banks may have experienced challenges operating in that country because of regulatory issues. Banking is changing more quickly in Asia than is the case in North America.

A number of factors were identified as providing an incentive to invest in Malaysia, including the country's ease of doing business, stable political system, simple immigration procedures, professional and English-speaking employees, proximity to suppliers, and visa-free entry for certain foreign nationals. The ability to trade duty-free within the ASEAN region was also noted.

C. Free Trade Agreements

The Committee learned that Malaysians want open borders, which would allow them to maximize their purchasing power. Malaysia currently has 14 FTAs, including with Australia, Chile, India, Japan, New Zealand, Pakistan and Turkey; as well, it is participating in negotiations for the Regional Comprehensive Economic Partnership⁸ and for a Malaysia-European Union FTA.

The CPTPP was characterized as useful for Malaysia, with Japan and Canada as signatories; as well, the United States could join the agreement in the future. By 2030,

8 According to the Government of Australia's *Department of Foreign Affairs and Trade*, the Regional Comprehensive Economic Partnership is "an ASEAN-centred proposal for a regional free trade area, which would initially include the ten ASEAN member states and those countries which have existing FTAs with ASEAN – Australia, China, India, Japan, Republic of Korea and New Zealand."



the agreement is expected to increase Malaysia's gross domestic product (GDP), exports and imports by 1.0% to 1.3%, 4.6% to 5.0%, and 5.5% to 5.9%, respectively. That said, Malaysia's civil society organizations are concerned that the CPTPP could lead to job losses. Notwithstanding these concerns, Malaysia's Parliament is expected to approve the CPTPP, and Thailand and Indonesia are likely to seek – and Taiwan and South Korea are interested in – accession to the agreement.

The Committee heard that the CPTPP's suspension of certain provisions that were contained in the Trans-Pacific Partnership (TPP) agreement that was signed in February 2016 should increase support for the CPTPP in Malaysia, that the TPP agreement's intellectual property provisions would have increased the cost of medicine in the country by an estimated 25%, and that the agreement's investor–state dispute-settlement process could have been problematic for governments and firms because of the cost of settling disputes.

The Canada–ASEAN FTA was described as important for Malaysia because Canada has natural resources that Malaysians need. As well, Canada was encouraged to continue pursuing this FTA because some of the ASEAN countries might not be interested in joining the CPTPP.

The Committee was told that the Commonwealth countries – including the United Kingdom, Canada, Nigeria, India, South Africa, Singapore, Malaysia and Australia – should consider the negotiation of an FTA.

Thailand

A. Trade Relations

Those with whom the Committee met in Thailand described the country as the world's largest producer of natural rubber, and a significant exporter of furniture, paper and wood chips. The country's agricultural, industrial and services sectors represent 10%, 40% and 50% – respectively – of its economy. In 2016, Thailand's GDP per capita was approximately US\$17,000, when measured at purchasing power parity, and about US\$6,700, when measured at official exchange rates.

The Committee heard that Thailand's average annual economic growth rate was 6.0% from 1991 until 2016, and was 3.9% in 2017; the rate for 2018 is projected to be between 3.6% and 4.6%, which is lower than the expected growth rates for the country's exports and public investment, at 6.8% and 10.0%, respectively.

Regarding the significance of business associations in Thailand, thousands of Thai businesses are members of chambers of commerce in that country. As well, Thai students participate actively in their local chambers of commerce.

Some of Thailand's economic modernization initiatives were described, including the country's development plan – Thailand 4.0 – that seeks to establish an economy based on creativity and innovation. Thailand has hired specialists and approved a plan to clear a backlog of patent applications, and has adopted intellectual property standards that are consistent with those of the World Intellectual Property Organization; it is protecting intellectual property rights relating to geographic indications.⁹ As well, because of investments in digital infrastructure, every village in Thailand has Internet access.

Canada is Thailand's 33rd-largest trade partner; in particular, Thailand's imports of Canadian wood pulp are significant, and six of Thailand's top 10 exports to Canada are related to the agri-food sector. However, the geographic distance between Canada and Thailand, and a lack of awareness in Thailand about Canadian industrial products, were considered to be factors that limit Canada's exports.

The Committee learned about opportunities to increase Canada–Thailand trade. For example, Thailand 4.0 may lead to more trade with Canada in information and communications technology products, and Canada could expand its aviation equipment exports to Thailand. Moreover, the value of Canada's dairy, beef and pulp product exports could rise, and – because Thailand wants to promote mechanization and diversify its agricultural production away from rice – Canada may be able to supply smart farming equipment¹⁰ to the country.

Services generally, and tourism specifically, were identified as sectors in which Thailand would like to increase the value of its international trade. The 2014 coup d'état that replaced the country's former prime minister¹¹ – and the resulting civil unrest – affected Thailand's tourism sector; however, the sector has since recovered to some extent. Thailand has opened a tourism office in Toronto that is expected to increase bilateral trade.

9 According to the [World Intellectual Property Organization](#), a geographic indication "is a sign used on products that have a specific geographical origin and possess qualities or a reputation that are due to that origin.... A geographical indication right enables those who have the right to use the indication to prevent its use by a third party whose product does not conform to the applicable standards."

10 According to a March 2018 [article](#), smart farming "involves the incorporation of information and communication technologies into machinery, equipment, and sensors for use in agricultural production systems."

11 As a result of the 2014 coup d'état, Thailand has a military government.



The Committee was told about potential areas of Canada–Thailand collaboration, including between small and medium-sized firms in the two countries. In Thailand, such firms comprise more than 95% of all firms and they contribute 40% to the country's GDP.

As well, there are opportunities to promote cooperation between the education sectors in Thailand and Canada. Finally, because Canada is known for its high agricultural standards, Thailand could use Canadian expertise to enhance its standards and – consequently – its agricultural exports to the European Union.

Notwithstanding areas in which Canada–Thailand trade could be increased, Thailand's auto and agricultural sectors were described as being protected.

B. Investment Relations

The Committee learned that Thailand's geographic location at the centre of the ASEAN region attracts foreign investment to that country; for example, it is faster to travel to capital cities in the region from Bangkok, Thailand than from Jakarta, Indonesia.

Recently, the Government of Thailand's efforts to promote inward foreign direct investment have focused on legal reforms that allow investments to be 100% foreign-owned, and corporate tax reductions and exemptions, including for firms that hire students. Moreover, to promote investment in innovative sectors, such as those that produce digital technologies and smart electronics, the Government has created a special visa category for people who work or invest in those sectors; the category provides eligibility for four-year visas and does not require a work permit.

The Committee was told that, while Canada is not among the top 10 investors in Thailand, Canadian firms – such as Celestica and SNC Lavalin – are major investors in that country. Thailand has been investing in rail transportation infrastructure, and Canadian expertise could assist in the development of the country's Eastern Economic Corridor project designed to connect different regions of the country by high-speed rail. Logistical challenges relating to the transportation of Canadian oil and gas to tidewater were considered to be impediments to Thai investment in Canada's energy sector.

C. Free Trade Agreements

The Committee learned that Thailand's deputy prime minister has expressed an interest in having the country accede to the CPTPP. If Thailand does not join the CPTPP, the country might be interested in a bilateral FTA with Canada, which could increase trade in such sectors as oil and gas, as well as forest products.

A Canada–ASEAN FTA was described as the next step in the development of Canada–Thailand relations, and the resources that Thailand would require in order to be involved in Canada–ASEAN FTA negotiations will soon be available. However, it would take less time to negotiate and implement a Canada–Thailand FTA than a Canada–ASEAN FTA.

Conclusion

Closer trade and investment relations between Canada and the ASEAN countries could benefit Canada, including because of the ability to diversify export markets. A number of countries in Asia have growing economies, and the three countries visited by the Committee – Singapore, Malaysia and Thailand – have expressed an interest in increasing the value of their trade and investment with Canada.

The Committee was informed about the possibility for increased trade between Canada and certain Asian countries, including in such sectors as oil and gas, agriculture, digital technologies and tourism, as well as opportunities for enhanced cooperation between Canada's small and medium-sized firms and at least some of those in Asia. In addition, transportation infrastructure was highlighted as a potential area of outward Canadian foreign direct investment.

The quality of Canadian education was highly regarded in all three countries. Some of those with whom the Committee met in each country expressed a clear interest in further developing and expanding educational cooperation with Canada. Increased student exchanges could promote the development of long-term people-to-people contacts, and Canada's trade with Singapore, Malaysia and Thailand.

Notwithstanding the geographical distance between Canada and the ASEAN region, the country's trade with the region is valuable and could grow. Specifically, new trade and investment opportunities would likely result from the negotiation and implementation of FTAs. If Canada ratifies the CPTPP and the agreement enters into force, the country's trade and investment with certain ASEAN countries would be facilitated.

Canada could obtain preferential access to the ASEAN countries that are not part of the CPTPP through a Canada–ASEAN FTA or through bilateral agreements with these countries. Whether, and – if so – the extent to which, Canada should pursue one or more of these FTAs might depend on such factors as the time and resources required to negotiate the agreements, the specific ASEAN countries that have indicated an interest in an FTA with Canada, and the ASEAN countries that seek accession to the CPTPP.



During the meetings in Singapore, Malaysia and Thailand, the Committee was told that the value of Canada–ASEAN trade might be limited by a lack of mutual awareness. If Canadian firms were to become more informed about the export opportunities in – and the business practices and cultures of – the ASEAN countries, the result could be more Canada–ASEAN trade and investment. Similarly, additional awareness of Canadian products in the ASEAN region could have a positive impact on Canada's exports.

The comments in this report could help the Government of Canada to ensure a prosperous relationship with the ASEAN countries. Through close collaboration with the governments of ASEAN countries on matters of mutual interest, the Government of Canada could provide Canadian firms with new and expanded opportunities to do business abroad, and could further develop the ASEAN countries' awareness of Canada as a reliable and valued trade and investment partner.

MINUTES OF PROCEEDINGS

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 100, 111 and 113) is tabled.

Respectfully submitted,

Hon. Mark Eyking, P.C., M.P.
Chair

